



## REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE MADIBENG LOCAL MUNICIPALITY

### REPORT ON THE FINANCIAL STATEMENTS

#### Introduction

1. I have audited the financial statements of the Madibeng Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and the notes, comprising of a summary of significant accounting policies and other explanatory information.

#### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

#### Basis for qualified opinion

##### Investment property

6. The municipality did not properly account for the fair value of investment property in accordance with SA Standards of GRAP, GRAP 16, Investment property. The fair value of investment property was determined using an average rate across all different categories of investment property as opposed to individual market rates. In addition, I was unable to obtain sufficient appropriate audit evidence that all property belonging to the municipality were

accounted for in the financial statements. I was unable to determine the resulting misstatement in investment property as it was impracticable to do so. Consequently I was unable to determine whether any adjustment relating to investment property of R2 308 386 919 (2012: R2 308 386 919) disclosed in note 3 to the financial statements was necessary.

#### **Revenue**

7. I was unable to obtain sufficient appropriate audit evidence that management has properly charged and accounted for all prepaid electricity due to a difference of R10 402 112 between the financial statements and prepaid electricity reports. This was due to lack of reconciliations between financial statements and prepaid electricity reports. I was unable to confirm the prepaid electricity by alternative means. Consequently, I was unable to determine whether any adjustment to sale of electricity of R339 668 694 as disclosed in note 21 to the financial statements was necessary.
8. I was unable to obtain sufficient appropriate audit evidence regarding revenue from licences and permits and commissions received during the prior year due to the status of the municipality's accounting records. I was unable to confirm the revenue from licences and permits and commissions received by alternative means. Consequently I was unable to determine whether any adjustment relating to licences and permits and commissions received stated at R5 274 534 and R8 754 694 respectively in the statement of financial performance was necessary.

#### **Irregular expenditure**

9. Section 125(2)(d)(i) of the MFMA requires disclosure of all material irregular expenditure. The municipality incurred irregular expenditure of R6 527 709 (2012: R71 342 777) due to payments made in contravention with the municipality's supply chain management policy and this was not disclosed in note 45 of the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as irregular expenditure in the financial statements as contracts and bid documents were not provided for audit. I was unable to confirm irregular expenditure by alternative means. Consequently I was unable to determine whether any adjustment relating to irregular expenditure of R2 669 482 (2012: R0) as disclosed in note 45 to the financial statements was necessary.

#### **Cash flow statement**

10. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement due to ?? Consequently I was unable to determine whether any adjustment relating to the cash flow statement in the financial statements was necessary.

#### **Material losses**

11. Section 125(2)(d)(i) of the MFMA requires disclosure of material losses. The municipality did not include particulars of material distribution losses relating to water and electricity in the notes to the financial statements as required. I was unable to determine the correct amount of distribution losses as it was impracticable to do so.

#### **Qualified opinion**

12. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Madibeng Local Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA.

#### **Emphasis of matters**

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.





### **Fruitless and wasteful expenditure**

14. As disclosed in note 44 to the financial statements, fruitless and wasteful expenditure of R168 978 for the current year and R2 073 405 from prior years has not yet been dealt with in accordance with section 32 of the MFMA.

### **Significant uncertainties**

15. With reference to note 37 to the financial statements, the municipality is the defendant in a number of civil claims. The municipality is opposing these claims. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

### **Restatement of corresponding figures**

16. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered at, and for the year ended, 30 June 2013.

### **Material impairments**

17. As disclosed in note 27 to the financial statements, material losses to the amount of R158 954 631 were incurred as a result of provision for debt impairment on irrecoverable trade debtors.

### **Material under spending of the budget**

18. As disclosed in note 22 of financial statement, the municipality has materially under spent the budget on the Municipal Infrastructure Grant by R35 456 238. As a consequence, the municipality has not achieved some of its service delivery objectives.

### **Additional matter**

19. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited supplementary schedules**

20. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these annexures and, accordingly, I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

21. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

22. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages XX to XX of the annual report.
23. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities or objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information (FMPPPI).
24. The reliability of the information in respect of the selected development priorities and objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is

valid, accurate and complete).

25. The material findings are as follows:

#### **Usefulness of information**

26. Section 46 of the Municipal Systems Act, Act 32 of 2000 (MSA), requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 27% of measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.
27. Section 41(c) of the MSA requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 20% of the objectives and 24% of the indicators reported are not consistent with objectives and indicators as per the approved service delivery and budget implementation plan. This is due to the lack of review of the reporting documents by management.

#### **Reliability of information**

28. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to the development priorities: "To provide basic municipal services" and "To enhance life of communities through social development initiatives". This was due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the development objectives.
29. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information with respect to development priorities "Good governance and public participation" and "To upgrade existing municipal services" are not reliable when compared to the source information and/or evidence provided.. This was due to the lack of standard operating procedures for the accurate recording of actual achievements.

#### **Compliance with laws and regulations**

30. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

#### **Strategic and performance management**

31. The municipal council did not review its integrated development plan annually in accordance with an assessment of its performance measurements in terms of section 41 to the extent that changing circumstances demanded, as required by section 34 of the MSA and Municipal planning and performance management regulation 3.
32. The performance management system of the municipality did not provide for taking steps to improve performance with regard to those development priorities and objectives where performance targets are not met, as required by section 41 (1)(d) of the MSA.
33. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the integrated development plan, as required by section 41(1)(a) of the MSA and the Municipal planning and performance management regulation 1 and 9(1)(a).



34. The municipality did not have and maintain effective, efficient and transparent systems of internal controls regarding performance management as required by section 62(1)(c)(i) of the MFMA.

#### **Annual financial statements**

35. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1)(a) & (b) of the MFMA. Material misstatements of current assets, non-current assets, current liabilities, non-current liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

#### **Procurement and contract management**

36. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
37. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
38. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids as required by SCM regulation 19(a).
39. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
40. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
41. Awards were made to providers whose principal shareholders are in the service of other state institutions, in contravention of section 1121(j) of the MFMA and SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

#### **Human resource management and compensation**

42. The competencies of financial and supply chain management officials were not assessed promptly in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels regulation 13.
43. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Municipal Regulations on Minimum Competency Levels regulation 14(2)(a).

#### **Expenditure management**

44. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
45. Reasonable steps were not taken to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### **Conditional grants**

46. The municipality did not register its master plans for bulk infrastructure with the Integrated National Electrification Programme, as required by the Division of Revenue Grant Framework, Gazette No. 35399.

#### **Revenue management**





47. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(f) of the MFMA.

#### **Consequences management**

48. Irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

#### **Waste management**

49. The municipality operated its waste disposal sites and wastewater treatment facilities without a license or permit in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989) (ECA) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).
50. The municipality's operational activities at its waste disposal sites and wastewater treatment facilities contravened or failed to comply with the requirements of a waste management permit or license and the regulatory provisions in terms of section 67(1)(f)&(h) of the NEMWA and section 29(4) of the ECA in instances where such were issued.
51. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c)&(d) and 26(1)(b) of the NEMWA.

#### **Internal control**

52. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

53. Leadership did not ensure that the performance of the municipality is sufficiently measured against predetermined objectives, indicators and targets as required by the MFMA. Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities. Existing internal controls did not allow management to ensure adequate monitoring of performance information resulting in material findings identified in the report on predetermined objectives and material deviation from legislation being reported.

#### **Financial and performance management**

54. Management did not fully implement effective controls to ensure that information in the financial statements and the report on predetermined objectives were reliable before submission for audit. This was mainly due to the fact that the municipality could not provide evidence in support of the information presented in the report on predetermined objectives and various instances of non compliance with legislation was identified.

#### **Governance**

55. Although the municipality had a functioning audit committee and internal audit, recommendations by internal audit and audit committee to address internal control deficiencies were not adequately implemented by the municipality, resulting in the internal control environment over predetermined objectives and compliance with laws and regulations being ineffective.



*Auditor General*

Rustenburg

30 November 2013



AUDITOR - GENERAL  
SOUTH AFRICA

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